000 virtual disappearance of the former Russian and German official classes.

178 554 565 Moreover, the social structure of the former Russian provinces had crumbled, and the Baltic peoples, who had hitherto been the least considered members of society, were now masters in their own house, chaotic though that house might be. This shift in the balance of power gave rise to a whole series of special problems concerned with the regulation of the relations between the various sections of the community, ranging from the redistribution among the peasants of land which had formerly belonged to the large estate owners, to the definition and stabilization of the position of the national minorities, and the adjustment of the relations between the States and the various religious denominations. It is proposed to reserve discussion of the constitutional and political history of the new States till a later chapter, and to summarise here the ways in which they handled some of the other problems with which they were confronted.

1. Agrarian Reform

423 ● 471 The first concern of the Baltic Governments was the expropriation of the great landed estates and their redistribution among the peasants. Even before the new Constitutions had been drafted, agrarian laws were passed in Estonia in October 1919, and in Latvia in September 1920, while in Lithuania there was a whole series of decrees starting in December 1918, and culminating in the Agrarian Law proper in April 1922.

In Estonia, the reforms were effected almost entirely at the expense of the Baltic Barons;[1] in Latvia, the burden was borne largely by the German Balts, the Poles, and Russians, and some fifty Latvian landowners; while in Lithuania the chief sufferers were the Poles and Russians, especially those who had obtained land on privileged terms from the Russian Government and such institutions as the Nobles' Bank, the Peasants' Land Bank, and the Orthodox Church, the German-Balt element here being negligible.

The treatment meted out to the dispossessed landlords was far more severe in Estonia than in the other two countries, for here they were deprived even of a minimum amount of land for their own use, whereas in Latvia and Lithuania they were at least allowed to retain small residual estates ranging in size from 50 to 100 hectares. In the matter of compensation the Latvian régime was the most severe, for, although the Constituent Assembly had recognized its desirability in principle, a law was passed in April 1924 providing that there should be no indemnity. The limited amount of compensation

[1] About 86·5 per cent. of the expropriated land belonged to the Baltic Barons, 2·8 to Russians, 6·4 to foreigners, and 4·3 to Estonians.

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423 provided in Lithuania by the law of 1922, and in Estonia by a law
471 of March 5, 1926, proved in practice to be negligible, owing to the currencies in which it was expressed.[1] Petitions on the subject of compensation presented to the League of Nations by the German Balts of Estonia (1926) and Latvia (1925), and by Polish landowners in Lithuania (1925), were all rejected on the ground that agrarian reform constituted a social, and not a minority, question.

The ways in which the lands thus nationalized by the agrarian laws were distributed, and the effects of the redistribution on the economic life of the three countries, are described elsewhere.[2] It is enough here to stress the fact that the chief beneficiaries were the landless agri-
423 cultural labourers, the small-holders, and the tenant farmers. The
178 abolition of the semi-feudal society which had survived up to the World War, and the creation of a large class of peasant proprietors, were factors which very largely determined the lines on which the political life of the new Republics would develop. They explain, in part, not only the failure of Communism to take root in these countries in spite of the proximity to Soviet Russia of two, at least, of them, but also the gradually declining influence of the Socialist and other Left parties in the years immediately following the setting up of the Republics, and the eventual establishment of agrarian dictatorships in Estonia and Latvia in 1934.

2. National Minorities[3]

563 *Lithuania.* At the last census, taken in 1923, the national minor-
162 ities in Lithuania together formed 16·12 per cent. of her total population, which then numbered 2,028,971.[4] The Jews, the largest group,[5] were chiefly to be found in the towns, and played an important part in the business life of the country, whereas the Russian minority consisted chiefly of peasants who settled in certain parts of the country more or less *en masse*, under the Tsarist régime, together with some 4,000 White Russian peasant colonists. The Germans,

[1] In Estonia compensation was based on the pre-War value of the rouble; for the Lithuanian arrangements, see below, p. 107. [2] See below, pp. 105–9.

[3] Much of the material for this section was obtained from C. A. Macartney, *National States and National Minorities*, Oxford University Press, 1934.

[4] Table 1. *Population of Lithuania (excluding Memel) According to Race* (1923 *census*).

	Lithuanians	*Jews*	*Russians*	*Germans*	*Poles*	*Letts*	*Others*
Number . . .	1,701,863	153,743	54,881	29,231	65,599	14,883	8,771
Percentage of total population . .	83·88	7·58	2·70	1·44	3·23	0·73	0·44

[5] The density of the Jewish population in Lithuania, which resembles that of Poland and Eastern Rumania, is due to the fact that Lithuania, before 1918, formed part of the Russian 'Pale', within which alone the Jews were allowed to settle without special permission. Thus the Jewish problem in Lithuania differs radically from that in the other Baltic countries.

727 other forms of production. Before the War Latvia, and to a smaller
234 extent Estonia also, had supplied St. Petersburg with butter and
433 other dairy produce. This trade, too, was lost after the Revolution,
[439] but the fact that it existed independently of foreign supplies suggested that dairy farming might be expanded so as to assume some of the importance formerly held in their economic systems by manufacturing industry. In this the development of the co-operative principle was of great assistance, and, during the period which ended in 1931, the two countries were able to make both ends meet by exploiting their forests and developing foreign markets for their butter and bacon, while their industries were still able to supply some of their own requirements of manufactured goods. Lithuania, though lacking manufacturing industries such as those possessed by the other two countries, followed a similar policy, and her success in finding foreign markets for her agricultural produce was the more remarkable in that the commercial organization of the country immediately after the War could not be compared with that of Estonia and Latvia. To sum up, then, the period 1918–31 described in the following section was one of reconstruction and of fundamental adjustment to the new conditions both inside and outside the Baltic. On the whole this process was highly successful, and it was no fault of the Baltic States that the conditions changed with the crisis of 1929–32.

Note: Except where otherwise stated, figures given in the tables are taken from the various statistical works published by the League of Nations, such as the Statistical Annuals, the annual memoranda on Foreign Trade and Balances of Payments, and the memoranda on Public Finance. Figures have occasionally been given in Swiss francs for comparative purposes. This is the old Swiss franc, the parity of which was 25·2215 to the £ gold, not the Swiss franc current since the devaluation of September 1936.

PART I: GENERAL FEATURES OF THE POST-WAR ECONOMY OF THE BALTIC STATES, 1919–30

I. THE PRODUCTIVE SYSTEM, 1919–30

Before the growth of the productive system in this period is described, reference must be made to two developments: agrarian reform and the expansion of the co-operative system.

1. Special Features

471 (i) *Agrarian Reform.*[1]

423 Although the growth of peasant ownership had proceeded rather more quickly in the Baltic Provinces than in the rest of Russia, a very large proportion of the land was still owned by a few large

[1] For the political effects of this see above, pp. 29–30.

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423 holders immediately before the War. The large holders in Estonia and Latvia were chiefly the so-called Baltic Barons, the German landowning aristocracy, although in all these countries Russian landlords (usually absentee), and the Church, owned a considerable area. During the first few years after the War the large estates were nearly all split up into small-holdings, and the typical Baltic peasant is now the small-holder who works his own land.

Estonia. Of the total area in 1918 in Estonia 58 per cent. belonged to no more than 1,149 estates of an average size of 2,113 ha., rather more than half of which were leased to small-holders. This land was expropriated during the years 1919–26 and leased or granted to small-holders by the State, which, however, retained in its own possession that part of the land which consisted of forests. The result of these and other reforms was that, according to the agricultural census of 1929, the land was owned, or leased by the State, as follows:[1]

TABLE 13. *Number and Size of Holdings in Estonia*

Number of holdings	*Size of holding*
24,000	under 5 ha.
22,000	from 5–10 „
35,000	„ 10–20 „
24,000	„ 20–30 „
22,000	„ 30–50 „
6,000	„ 50–100 „
500	over 100 „

Latvia. Similarly in Latvia only 39 per cent. of the cultivated land was owned by small-holders in 1900, and even after the Lettish revolution of 1905[2] in Courland nine noble families owned one-fifth of the land in 1914.[3] The reform was effected in 1920. About five-sixths of the forests were declared State property. Of the remainder all the land except that belonging since 1915 to Latvian subjects, if in holdings of not more than 100 ha., was placed at the disposal of the State, though further exceptions were made of land belonging to charitable or scientific institutions, and the communes. The land thus appropriated by the State was then redistributed in lots of not more than 27 ha. each. In 1924 the Latvian Parliament decided not to grant compensation to the former landlords except in respect of certain debts arising out of mortgages. An appeal by the landowners to the League of Nations in 1925 was not considered, on the ground that the reform was of a social nature and did not affect the question

[1] *Estonia: Population, Cultural and Economic Life*, edited by A. Pullerits, Tallinn, 1935, pp. 69–70; and Henri de Montfort, *Les Nouveaux États de la Baltique*, Paris, 1933, p. 125.
[2] De Montfort, op. cit., p. 118; and *Foreign Office Peace Handbook*, No. 50.
[3] *Foreign Office Peace Handbook*, No. 50, p. 56; and Alfreds Bilmanis, *Latvia in the Making, 1918–28*, Riga, 1928.

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of minorities. The result of these reforms is that the land is distributed somewhat as follows:[1] 401 423

TABLE 14. *Number and Size of Holdings in Latvia*

Number of holdings	*Size of holding*
109,000	under 10 ha.
51,000	from 10–20 „
24,000	„ 20–30 „
21,000	„ 30–50 „
18,000	„ 50–100 „
2,000	over 100 „

Lithuania. Land reform in Lithuania had been an issue as far back as 1905, for the large owners were chiefly absentee Russians and there were few of the 'improving' Baltic Barons. The question was thus more acute than in the other Provinces. Some progress was made before the War, however, and it is calculated[2] that in 1914 about 50 per cent. of the total cultivated area was in the hands of small-holders, but chiefly in plots which were uneconomically small. The most important legislation was enacted between 1919 and 1922. Forest land, if in plots of more than 25 ha., was declared State property. Other land formerly belonging to the Russian State, the nobility, the Church, and other estates of more than 80 ha. were also declared State property and allotted in small portions to the landless, who paid a nominal price in kind or money. Compensation to the former owners was allowed in most cases, but the currency in which the payments were expressed, viz. the Ostmark, depreciated so soon and so rapidly that the real value received was usually negligible. Some of the Polish landowners who had been dispossessed appealed to the League of Nations in 1925, but only to obtain a ruling similar to that given in the case of Latvia. The consequence of the redistribution—which is still to some extent in progress—can be seen from the figures of the census of 1931:[3]

TABLE 15. *Number and Size of Holdings in Lithuania*

Number of holdings	*Size of holding*
132,000	under 10 ha.
93,000	from 10–20 „
34,000	„ 20–30 „
21,000	„ 30–50 „
6,000	„ 50–100 „
1,000	over 100 „

(ii) *The Co-operative System.*

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The result of these reforms was at first a considerable dislocation of the productive system and a decrease of efficiency. This was

[1] De Montfort, op. cit., pp. 113–14.
[2] Ibid., p. 114.
[3] Department of Overseas Trade: *Economic Conditions in Lithuania during 1931*, publ. 1932, p. 13.

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(b) Total of Pigs[1]
(*In thousands*)

	Estonia†	Latvia	Lithuania
Year 1913 . . .	275	557	1,268
„ 1930 . . .	290	523	1,136
„ 1936 . . .	379*	674	1,210

† 1913-14. * 1937.

#39 234 251 More than half of the butter exports from these three countries, and practically all the bacon exports, are now taken by the United Kingdom.[2] It seems to follow that the United Kingdom is gradually assuming towards the Baltic States responsibilities very similar to those she has already assumed in the case of Denmark. As will be seen, the sterling received for the Baltic States' exports of bacon and butter is of vital importance to the exchange position.

5. Manufacturing Industry

433 ● 471 The principal change in the industrial system since the crisis has been the need, already mentioned, to save foreign exchange by manufacturing inside the country as far as possible what was formerly imported. The policy has been pushed furthest, largely at the instigation of the State, in Latvia and Estonia, for in these two countries the industrial apparatus required for such an experiment was to a considerable extent already in existence. In Lithuania, however, this was not the case, and industrial self-sufficiency has consequently made far less progress than in the other two countries, although when and where it has been possible advances have been made in this direction. But, in each case, the degree to which this policy can succeed is strictly limited by the fact that all three countries lack not only the essential raw materials of industry such as coal, iron, non-ferrous metals, rubber, cotton, and wool, but also the capital required for attempting the expensive process of manufacturing substitutes.

The progress made by industrialization in Estonia and Latvia can best be judged from Table 38 opposite.

464 438 The increase of workers employed in the textile trade, in which some degree of self-sufficiency is perhaps easiest to achieve, will be noted. The increase of workers employed in 'other' industries in Estonia is due largely to the activity of the shale industry, since at the end of 1937 the extractive industries were employing about 4,500 persons; this also accounts largely for the increase in 'chemicals'. Included in 'other industries' are also nearly 3,000 persons engaged

[1] Pre-war figures for Estonia and Latvia relate to a somewhat smaller area than that of the present States.

[2] Figures are given in footnote on p. 156.

178 to something like boom conditions during 1936 and 1937–8, when a shortage of labour and a movement towards higher wages, attracting workers from agriculture, began to be felt. The progress of industrialization during these years has largely been due to private initiative. But, in its initial stages, the State gave indirect encouragement by the imposition of import and currency restrictions, and in recent years has begun to play a more active part.

178 438 Industrial development has chiefly consisted in the further employment of plant already in existence, especially in the textile industry, where substantial progress was made on the lines already mentioned,[1] particularly in the use of home-grown flax. Considerable progress also was made in the plywood industry, mainly as the result of the building boom in Great Britain. As already stated, there was a noteworthy expansion in the shale and ancillary industries. Since 1930 plant has been greatly extended, and, by the end of 1936, the exploitation of Estonia's shale resources had reached a point where [439] it did much to compensate for the lack of other fuel.[2] It is noteworthy that, whereas the increase of industrialization in Latvia led to an increase of coal and coke imports from 4·2 per cent. of the total annual average value of imports in 1928–30 to 10·8 per cent. in 1936, in Estonia, where the progress of industrialization was nearly as great, the figure remained stable at about 1·4 per cent.

New industries also have been started since 1930. The production of artificial horn, which is made from milk, has assumed substantial proportions, and exports have steadily risen from 24 tons in 1928 to 751 tons in 1937. In the autumn of 1936 a factory was begun for the [475] manufacture of sulphate of cellulose. Negotiations are at present in progress for the erection of a plant for making superphosphate, which is to use the large deposits of phosphate near Tallinn, one of the few important mineral deposits in the Baltic States other than shale.[3] In this the State is, apparently, taking a direct interest. The State has also taken a direct interest in a brick-making concern founded in 1936.

● 441 433 *Latvia.* In general, however, the interest of the State, direct and indirect, is far greater in Latvian industry. This is a tendency which can be dated fairly accurately from the coming of the totalitarian régime in 1934. Before that date developments in industry since 1930 had been similar to those in Estonia. The first effect of the crisis was to restrict very severely the activity of the industries

[1] See above, p. 118.

[2] According to an article by the Estonian Minister in London in *The Banker* for March 1938, the output of oil-shale increased between 1920 and 1930 from 48,000 to 498,000 tons, and rose to 1,100,000 tons in 1937. Similarly, the production of crude oil increased from 10,000 tons in 1930 to 110,000 tons in 1937.

[3] *Die Börse* (Vienna), January 4, 1937; *The Banker*, March 1938.

working for export, especially the timber and plywood industries. This was followed by a general decrease of activity throughout the industries supplying the home trade, such as the textile industry, owing to the fall in agricultural purchasing power arising out of the decrease of exports. This movement was further accelerated by the credit crisis of 1931 and the moratorium on banking withdrawals; and by 1932 the monthly average total of unemployed was well over 14,000.[1]

Meanwhile, in the autumn of 1931 there was a general increase in Customs duties, and a system of import quotas and exchange restrictions was introduced. All these measures greatly increased the tendency towards industrial self-sufficiency, which now became the acknowledged policy of the Government. There was consequently a considerable increase in the activity of the consumption industries, especially the textile sections, which, as in Estonia, increased their consumption of home-grown flax. This led in turn to an increase of activity in the production goods industries. At this stage the export industries began to experience a recovery, and by the end of 1934 the building boom in the United Kingdom began to have an appreciable effect on the plywood industry and saw-mills. There was also a marked recovery in the paper and cellulose industry.

Up to this point industrial expansion had followed the normal course of recovery from a severe recession. This recovery had taken place for the most part within the limits of the existing industrial apparatus. Few fresh industries had been started, and the relations existing between industry and the State before 1930 had, for the most part, been maintained. The advent of the totalitarian system in 1934, however, has been followed by an entirely new industrial policy. This policy does not consist merely in an attempt to attain the greatest degree of self-sufficiency. Its purpose would seem rather to be the introduction of a form of State capitalism or, at any rate, a system in which the State is able to exert direct control over the industrial organization. It will be seen how the State, by its relation to the co-operative system, is able to exert a considerable degree of control over agriculture and dairy farming. This, however, is a policy which the State is generally compelled to pursue in a poor country of small farmers. That such a policy should be applied to a relatively large industrial organization, which had hitherto relied on private enterprise, was a considerable innovation.

The policy began to be put into effect first through the *Latvijas Kreditbanka*,[2] a commercial bank formed by the State in 1935. By the purchase of majority shareholdings, this organization soon

[1] i.e. demands for work according to the official returns.

[2] On this, see further pp. 184-5.

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471 acquired a considerable interest in industries of a very varied
652 nature, in determining the policy of which it is naturally instigated
655 by the desires of the State. During 1936 and 1937, however, the State itself has been acquiring a direct shareholding interest in a number of concerns, of which may be mentioned a large metallurgical works in Riga, and a large brick factory. Even in the timber industry the Government is in a position to control auction sales, and is itself an exporter. Almost the only branch of industry which has so far remained free from the direct or indirect influence of the State is the textile manufacturing industry.[1] How far this policy will be pursued
[485] it is impossible to say. The President stated in April 1937 that the Government wished the entire Latvian population to participate in the progress of industry by taking a direct shareholding interest, and appealed to the public to purchase shares in the new State brickworks, even suggesting that the State might guarantee dividends.

433 *Lithuania.* Developments in Lithuanian industry since the crisis
457 have been on the whole inconsiderable. Though severe restrictions were placed on imports in 1935, the existing industrial system was too small to bear the strain of a thoroughgoing policy of self-sufficiency, and, in any case, the lack of foreign exchange and foreign credit has prevented the import of sufficient plant to make it possible. Nevertheless, there has been some expansion in the textile industry since 1930, and in 1936 there were as many as 5,000 persons employed in this branch, though the figure includes those employed in Memel. The result has been some decrease in the import of textile piece goods and an increase in the import of yarns and raw materials.
[477] A further development of some importance has been the growth of trusts and combines, mainly in the foodstuffs and brewing industries, which have arranged for the regulation of output and the fixing of prices.[2]

II. FOREIGN TRADE AND BALANCE OF PAYMENTS, 1931–7

1. General Movement

439 It has been seen that the foreign trade of Estonia and Latvia had already begun to decrease before 1931. With the onset of the financial crisis of that year, the decrease in the trade of all three countries rapidly gathered momentum. The value of exports (expressed in Swiss francs) did not finally reach their lowest level until 1933 for

[1] The State, however, has recently taken an interest in a newly formed company concerned with the production of woollen textiles (*Frankfurter Zeitung*, August 21, 1937). It may be added that the State is interested also in shipping; see below, Appendix II, p. 191.

[2] Details are given in D.O.T.: *Economic Conditions in Lithuania, November, 1935*, publ. 1936, pp. 15–16.

So far as Estonia and Latvia are concerned, there has been a noteworthy increase in the last three years both in value and in volume, the recovery in volume beginning in 1933. The volume of Lithuania's foreign trade, also, has recovered somewhat from that of the worst years:— 439

TABLE 43. *Volume of Foreign Trade*

(In thousand metric tons)

	Estonia		Latvia		Lithuania	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Yearly average 1928–30	474	489	1,284	1,421	569	712
Year 1931	407	372	774	1,050	368	743
„ 1932	251	233	657	734	331	624
„ 1933	322	219	954	813	462	628
„ 1934	531	285	1,042	919	525	610
„ 1935	478	296	1,051	1,049	499	713
„ 1936	456	384	1,060	1,104	540	780
„ 1937	516	432	2,016	1,224	468	936

In Estonia and Latvia the value of exports and imports fell by almost exactly similar proportions. The subsequent increase in the value of exports, also, has been of similar proportions. As regards that of imports, however, this has not been the case. The reason is that, on the one hand, it has been the policy of Latvia to eliminate the large import surpluses of the years before 1930, and that, on the other, Estonia's industrial policy has led to an extraordinary increase in imports in 1936 and 1937. The reasons for the recovery in general are to be ascribed to the rise of prices since 1933; in particular, to the large imports of timber into, and to the securing of a market for bacon and dairy produce in, the United Kingdom by the trade agreements of 1934. There can be little doubt, also, that the abandonment of the gold standard in 1933 greatly stimulated Estonia's foreign trade, and placed her for a time at an advantage over the two other countries. Movements in Lithuania's trade were rather different; the decrease was smaller, the lowest point was reached later, and the recovery has been slower, than in the other two countries. This difference is, perhaps, due to the fact that it was not necessary to introduce a managed currency and the consequent exchange restrictions until considerably later than in Estonia and Latvia, while the slowness of recovery arises from the repercussions of the Memel dispute with Germany in 1935. In 1937, however, there was an appreciable increase in her foreign trade though, for the first time since 1931, there was an import surplus.

Finally, mention must be made of a development which has greatly increased in importance since 1930, namely, the tendency 439 471

439 towards the centralization of the chief exports in the hands of the
● 471 State or of organizations closely connected with the Government. This movement is no new thing; in Latvia a flax monopoly was instituted shortly after the War, and in all three countries the predominant position occupied by the co-operative system in the production of bacon and butter tended to give that system (particularly in Lithuania[1]) a predominant position also in the export of the commodities concerned. But its progress has been greatly accelerated since 1930 by the vital need to encourage exports in order to obtain the resulting foreign exchange, and, since 1933, by the advent of semi-authoritarian régimes in Estonia and Latvia. The tendency has
[655] been most marked in Estonia. During 1936 and the early part of 1937, the Government established autonomous State organizations which were given a monopoly of the export of butter, eggs, pigs, and bacon.[2] In Latvia the system of granting actual monopolies of export has not been much employed in recent years except in the case of flax, but since the export of most of Latvia's agricultural products was dependent on subsidies from the State, at any rate until the abandonment of the gold standard, the control which the State can exert over the export trade is considerable. It is also clear that since, in all three countries, the State actually owns a large proportion of the forests, the State is able to control the export of timber.

2. Principal Commodities

439 Tables are given on pp. 160–3 showing the value (expressed in Swiss francs) of the principal exports and imports in 1932, one of the worst of the crisis years, and the last two years for which comparable figures are available. The annual average for 1928–30 is given for purposes of comparison.

Changes in Nature of Imports. The most significant change during the past six years has been in the nature of imports, and arises, as already mentioned, from the attempt of these States to achieve a
[256] greater degree of self-sufficiency. Before the crisis about 14 per cent. of the imports of Estonia and Latvia consisted of grain and flour. Since 1931 the efforts made in both countries to increase agricultural production have been so successful that grain imports have been very substantially reduced.[3] Latvia, which formerly imported more grain, both relatively and absolutely, than Estonia, has even

[1] For details of the Government's control of foreign trade in Lithuania as operated through the co-operative system, see D.O.T.: *Economic Conditions in Lithuania, November 1935*, publ. 1936, p. 3.

[2] These monopolies are exercised by the co-operative societies *Võiekspor*t (butter), *Munaekspor*t (eggs), and *Lihaekspor*t (pigs and bacon). See *Estonia: Population, Cultural and Economic Life*, ed. A. Pullerits, Tallinn 1937, pp. 132–6.

[3] Owing to the partial failure of the 1936 harvest, Estonia was, however, compelled to import small quantities of grain during that year and 1937.

The result of this change in the productive system, therefore, may 433
not be large in itself; but it has been accompanied by a development 471
which may assume considerable importance, namely the increase in the extent of control exercised by the State over the economic system, both in Estonia and in Latvia. As has been seen, the increase has been most remarkable in Latvia, where there has been a steady progress towards a form of State capitalism. The movement has been less noteworthy in Estonia, it is true, but the tendency plainly exists, and its importance should not be underestimated. Some attempt was made to indicate the potential dangers to the financial position of the State which may result from such a policy, but this is by no means its only disadvantage. For, like Lithuania, both Estonia and Latvia are unable to accumulate capital on a scale sufficient to enable them to finance large schemes of development themselves, and they will depend for this on their ability to borrow abroad. Their need to do so, moreover, will presumably be greater than that of Lithuania owing to the greater degree of their industrialization, even if their standard of living as a whole is somewhat higher. But the pursuit of a policy of State capitalism, and the arbitrary methods which it sometimes involves, does little to encourage prospective lenders.

In general, then, the economic prosperity of the Baltic States 439
depends largely on their export trade, and this, in turn, depends 457
largely upon the United Kingdom. Provided, therefore, that they can maintain the commercial relations they have built up with that country since 1934, and that agricultural prices do not fall substantially below present levels, the stability of their present economic existence should be assured so long as the respective Governments can avoid the dangers of State capitalism. But this means little more, in the last resort, than that the current income of the economic system will roughly suffice to cover current outgoings, and that the standard of living will remain at or around its present level. If reserves are to be accumulated, whether to ensure against a future depression or to finance the development needed to raise the standard of living, foreign capital will be indispensable.